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Competitive Advantage in MROP

Book: How you can help customers cut costs in untapped arenas

The procurement of maintenance, repair, operating and production supplies (MROP) accounts for 20 percent of total spending in an organization, but consumes about 80 percent of the time, effort and expense in purchasing, according to The 20% Solution: A Practical Guide to Dramatic Cost Reduction in MROP Procurement, a new book by industry veteran Joel Roth. This article contains excerpts and case studies from Roth's book.

Roth says that very few organizations have analyzed and identified improvement potential in MROP procurement beyond price quotes. However, cost savings of more than 35 percent of MROP spending are possible with little investment or risk.

Many companies are faced with increased operating costs and fewer sustainable competitive advantages. Those who find new approaches to MROP procurement will achieve a sustainable competitive advantage and with that, higher profitability. MROP procurement can offer substantial untapped opportunity for improvement in cash flow, cost reduction and other key elements of operations without investment, risk or substantial work.

In his book, Roth says that distributors can serve as top-notch consultants to help customers evaluate MRO procurement activities and recommend improvements. This can strengthen relationships with customers and lead to more business. In any sizeable organization, there are hundreds of opportunities every day to identify and implement cost savings.

Overview

Almost every organization buys materials in one or more of these categories: raw materials, purchased components, capital goods, packaging materials (large volume) and supplies for MROP.

In most entities, the first four classes above represent at least 75 percent to 85 percent of total dollars spent on physical goods. MROP typically represents no more than 15 percent to 25 percent of total spend.

So why differentiate MROP procurement from other categories of purchases? Why devote an entire book to a relatively small category of spending? (Note: The U.S. market for 136 MRO industrial product groups is estimated at $450 billion to $500 billion a year, according to Industrial Market Information Inc.)

The reason is that the characteristics of MRO buying are so different from other types of goods that entirely different methods of analysis, sourcing, negotiating, stocking and tracking are required – with an entirely different cost structure.

To illustrate, imagine an appliance manufacturer that buys $50 million annually in a few grades and sizes of hot-rolled carbon steel sheet. The buyer can readily check market prices and trends in market reports. He can deal directly with the available mills, foreign and domestic. He can easily identify the handful of vendors who can supply his requirements on quality, price, availability and freight equalization.

He can negotiate a competitive price because he is able to offer an attractive volume of business. And he can easily verify the deal by contacting a few colleagues. In other words, this company can complete an effective buy on $50 million of raw material with minimal time, money or effort (probably one experienced buyer).

Now imagine the same appliance manufacturer addressing its MRO purchase requirements. It may be purchasing 15,000 different SKUs across nine different plants. One of these SKUs is a six-inch Philips screwdriver. Each plant buys a

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INSIDE

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PERSPECTIVE ■ *Commentary by Thomas P. Gale*

Enlightening MROP Procurement

Distributors have ample opportunity to take the lead (and build stronger customer relationships) in creating leaner and more productive supply channels. Author Joel Roth says he wrote *The 20% Solution*, some of it excerpted in this issue, to address the frustration of purchasing professionals who have difficulty dealing with MRO procurement. He gives the following recent example of how corporate buyers can go amiss:

A well-known international manufacturer of building materials tried for 15 years to install an effective integrated supply program for MRO. Three costly attempts failed. Their fourth attempt led to the following Request For Quotation: Time allowed for bidders to respond – 13 working days. Total corporate spend on miscellaneous mill supplies – $1.2 million (probably going down sharply due to current market conditions and production cutbacks). Number of plants – 26. Average annual spend per plant – $50,000. Number of SKUs in market basket – 1,395. Average spend per SKU per year – $860 across 26 plants with no usage per item per plant. Percent of SKUs with annual spend of less than $100 – 81%.

In addition to seeking lowest prices on the market basket, the RFQ asks for the following services, with no additional supplier compensation: Uniform pricing to all plants regardless of volume. Prices firm for one year, plus not-to-exceed pricing for three years. Same pricing structure on all items purchased whether stock, specials, emergency. Right to award an agreement nationally, by plant, by region, by commodity group or not at all. Discounted payment terms or net 60 days. Electronic invoicing and remittance. No order minimum. All product f.o.b. delivered at vendor's expense. *Adequate* sales and technical support at all locations within 48 hours. Monthly usage reports by item by plant. (See this article online at www.mdm.com for the complete services list. There's more!)

Clearly, this company has no concept of the basic cost-profit relationship between buyer and seller. As a result, their likelihood of achieving a successful result is minimal. Unfortunately, this approach is too common in MRO procurement.

So how can you change the outlook of customers who might resemble the above example? Go to the link at the end of this article on the next page and download – for free – a copy of this book that Roth has made available for MDM subscribers. *The 20% Solution* is aimed at educating corporate purchasing management so they might achieve a better outcome than is likely here. It is well-written and offers a lot of value to your customers. And please thank Joel when you use it! ■

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Competitive Advantage in MROP

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different brand, from a different vendor, with a different specification, at a different price and calls it by a different name, description or identifier. And this pattern will apply to most of the 15,000 SKUs.

Moreover, while one central buyer is probably handling the steel procurement, the MRO buying is being done by a multitude of people in the various plants, including storeroom attendants, maintenance mechanics, plant engineers, production foremen, safety engineers, quality control technicians, office managers, buyers and, yes, even janitors. And the janitor and maintenance mechanic may be emotionally attached to their brands and suppliers of mops and drill bits, respectively.

While MRO supplies account for only 15 percent to 25 percent of total material spend, they represent, in most organizations, a highly disproportionate ratio of total procurement efforts and expenses.

MRO usually involves 75 percent to 85 percent of line items bought; man-hours expended in purchasing, receiving, storeskeeping and intra-company materials movement; purchase orders issued; invoices processed; accounts payable checks; cost and material accounting; data entry; database maintenance; bidding, sourcing and negotiating; inventory obsolescence and overstock; expediting and tracing of open orders; missed or late deliveries; errors and quality deviations.

Usually, freight and handling charges on MRO supplies are also disproportionately high.

It is a rare purchaser who has a good comprehension of the true potential improvements obtainable in the MRO arena. Moreover, even that rare individual who has evaluated his MRO expenditures has generally concentrated on invoice prices, which are less than 40 percent of the savings opportunities.

Establish Best Practices

Here is an example of how a supplier can help his customers identify and implement cost savings. (See more case studies like this in the sidebars on pages 1 and 4.):

At a national commercial baker, the supplier and chief maintenance engineer were touring the plant, and chaos broke loose. The production line stopped, the paging system came alive and the engineer raced to the site of the problem. As the engineer later explained to the supplier, each line had automatic hones, driven by a special fractional hp motor, to keep the slicing blades sharpened.

Gluten from the baked goods builds up on the blades like glue and eventually creates enough torque on the hones to freeze the system and burn out the motor. On this occasion, there were no replacement motors on hand or locally available and the engineer was desperate. The supplier was able to find the motor at the manufacturer who provided to the OEM and had it air-expressed the same day.

The vendor learned that the problem occurred repeatedly in bakeries across the company. He contacted the president and the chief design engineer at the original equipment manufacturer for their recommendations.

He was informed the problem had been solved at another bakery by installing, at no charge, a simple overload relay circuit to sense excessive resistance on the hone drive, shut down the system, activate an alarm and permit the operators to clean off the blades and resume production.

Most enterprises have no mechanism to communicate and implement best practices throughout the organization, so they keep reinventing the wheel.

However, alert and motivated suppliers can fill a crucial role in filling this gap, particularly in an indirect function such as MRO procurement and practices.

The 20/80 Solution

Why is this book titled *The 20% Solution*? In 1906 an Italian economist named Vilfredo Pareto observed that 20 percent of the population in Italy owned 80 percent of the country's property. This become known as Pareto's Principle of Maldistribution or, more famously, the 20/80 Rule. This concept is extremely useful as an analytical tool because it enables one to concentrate efforts on a small number of items, yet achieve valid results for the entire universe being studied. You will find that the 20/80 Rule is ideally suited to analyzing and resolving the MRO problem (the 20 percent or so of total spend).

The 20% Solution, is available to MDM readers for free download at www.the20percentsolution.com. Roth has owned and operated a number of privately held companies, including 10 industrial supply distributors in the Southeast U.S. Roth now serves as a consultant, speaker, trainer and seminar-workshop leader.

E-mail him at jroth@the20percentsolution.com.

Case Studies: Saving Hard Dollars in MROP

There are many paths to reducing "hard-dollar" invoice expenditures for MRO materials. Here are examples of some of those provided in *The 20% Solution*:

Special Negotiated Discounts – To negotiate the best deal, it is essential to understand the needs, problems and objectives of each party. Example: An earth products processor required special cartridge filters for its calcining and grinding equipment.

These filters were ordered 20 at a time, at a cost of $450 each, plus freight and emergency premiums due to long lead times and lateness in reordering. And the customer tied up about $10,000 in inventories.

Upon inquiring, the distributor learned these patented filters were custom-made to order in small lots by hand and were a costly nuisance.

The distributor agreed to buy in economical lot sizes of 65, stock the filters and deliver next day at no charge.

The manufacturer gave the distributor an added discount and dated terms to defray his additional costs.

The customer's price dropped to $398 with freight and emergency charges eliminated, inventory virtually eliminated, and lead-time cut from 8-10 weeks to next day.

Avoiding Unnecessary Purchases – Many buyers have never considered the cost of unnecessary purchases, possibly because they have no practicable way to identify them. Example: A multi-plant manufacturer of automotive antifriction bearings was ready to close down a plant suffering heavy foreign competition.

A long-time MRO supplier was asked to identify savings potentials estimated at $2 million annually for indirect materials, of which $605,000 (30 percent) was ascribed to unnecessary purchases and better utilization of surplus inventories.

The plant stocked many components for equipment such as screw machines and grinding machines, using min/max criteria based upon an ancient machine census.

As a result, the storeroom was buying expensive replacement parts for many more machines than were in use.

Standardization/Consolidation of Items and Suppliers – This is one of the most significant cost reduction areas in MRO procurement, dwarfing savings available from reduced pricing. Example: A containerboard manufacturer – with 15 mills and more than 100 converting plants – maintaining a raw database of more than 12,500 MRO items.

A sample analysis of three randomly-selected product types was initiated to identify the potentials for standardizing or consolidating the number of SKUs, as well as possible dollar savings. Here are a couple examples –

Measuring tapes: 73 different SKUs from seven different sources were cut to 10 SKUs from one high-quality supplier (who also made three of the other brands being bought from current sources on a private-label basis). Weighted average savings were 30 percent.

Mops, brooms, heads and handles: 138 different items from 30 sources were consolidated into 13 heads and one universal handle from one top-quality manufacturer.

Weighted average cost reduction totaled 35 percent. Additionally, the product was shipped knocked down (heads and handles unassembled) which reduced freight cost, handling, storage space, inventory investment and stock-out.

Specifications – Many MRO material specifications are based upon tradition, historical usage or standards that are no longer relevant. Yet, because the product has always worked, it is assumed that any change in specifications will lead to disaster.

However, a simple change in specifications, properly tested before adoption, may completely change the cost paradigm.

Example: A manufacturer of piston rings for the automotive industry used aluminum oxide slurry to achieve final tolerance and finish requirements. The supplier recommended a different concentration and formulation from a different manufacturer.

The required testing was performed and the new product accepted. Usage declined by 66 percent and total annual cost, including freight, went from $147,000 to $39,000 – a 75 percent reduction in a single plant.

Joel Roth's book, The 20% Solution, is available to MDM readers for free download (in pdf) at www.the20percentsolution.com. This book has been used as a professional sales promotion and educational tool for end-user customers and prospects, with a dramatic response from the purchasing community to whom it is directed.

Case Studies: Saving Soft Dollars in MROP

Purchase order costs include the entire procurement cycle: requisitioning, sourcing, placing the order, expediting, receiving, transporting, stocking, paying and so on.

There are numerous soft-dollar savings that distributors can help their customers achieve, including bar coding, storeroom management, vending machines and electronic customized catalogs.

Potential cash flow and other improvements may very well exceed hard dollar savings potential. Here is one example:

Consolidated Invoicing – The vast bulk of work performed in most accounting functions is directly related to MRO procurement.

In many cases the amount of approvals, checking, coding, data entry, uploading, check preparation and mailing and other tasks is staggering. It is also labor-intensive and error-prone. The true cost of nonproductive activities is incalculable but substantial.

Example: A packaging company required approvals for purchasing not only from accounting, but department heads and plant managers.

One plant manager complained he had to take MRO invoices home to review and approve because he had higher priorities during the business day. Moreover, the same procedure is required for a $5 broom as it is for a $50,000 truckload of ink.

The company had installed an expensive and sophisticated ERP data processing system. But the MRO procurement application was ignored in the planning and implementation stages.

An integrated supplier designed a completely new paperwork process, utilizing the exiting ERP system, and eliminating all paperwork in the MRO procurement cycle with the exception of one document: a signed packing list/bill of lading for system verification and audit.

Go Beyond 'Brochureware' Online

Connecting with customers on the Web

Web sites are becoming increasingly important for distributors as a way to connect with customers and provide valuable information about products and services. This article looks at how you can build a simple but effective site that allows you to interact with and inform potential and existing customers.

By Lindsay Young

Building an effective Web site is not about selling online. It's about providing another avenue for customers to connect with your company. So say experts in Web site development and optimization, as well as in the distribution industry.

Increasingly, Web sites are becoming more important to and expected by customers as they seek to learn more about your capabilities and potential fit as a supplier.

Go beyond "brochureware" – using just a picture of your facility and your contact information – as Indian River Consulting Group's Mike Marks says. A distributor can only survive by forging a strong connection with its customers, and nowadays, that includes online as well as off.

"Senior executives who know their businesses need to figure out how the Web can help them," Marks says. Work to build an interactive online presence that fits into your company's strategic plan.

The Investment

Marks believes distributors of any size can pay an outsider to come in and build a Web site or improve upon the old one, as well as build online tools to better connect with customers and track site visitor data.

"You have a marketing budget, or you should. Invest part of it in Web technology," he says.

Marks asks: "What could you do with the recovered costs from your two weakest sales reps? Spend half of what you save on building a Web presence that really creates customer intimacy."

What do customers want to see on your Web site? How is your field sales effort linked to your Web marketing? And how would your customers score you on how easy it is to do business with you online?

If you do not have an active Web site or want to update the one you have, a quick search

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online can provide some ideas. Microsoft offers these tips on its Web site: In the Web site's design, reflect the kind of business you run.

Keep it up-to-date and in-sync with your offline marketing. Place sales, discounts, events or promotions on the front page. It does not have to be fancy.

Provide customers with information they can use, such as white papers, product information and client testimonials.

E-newsletters can be an effective marketing tool, and are relatively cheap to implement through third-party services online. If you are a safety distributor, for example, start an e-newsletter for your customers that provides information on safety in the workplace and new product uses.

Work with customers to ensure you are meeting their needs with your online presence. Manufacturer Standard Abrasives has included an survey on its Web site that asks specific questions about how easy it is to use the site and whether the information provided fits customers' needs.

Here is how two distributors in distinct sectors are optimizing their Web sites:

Skinner Nurseries

"We want to make our Web site a desired destination where our customers can not only go to access this information, but increasingly be able to conduct business with us via our Web site," says Skinner President Kevin Van Dyke.

Skinner Nurseries, Jacksonville, FL, is a relatively young wholesaler-distributor of trees and plants with close to $115 million in annual sales. Skinner built its Web site, www.skinnernurseries.com, in 2001.

Van Dyke found three designers in the area and asked them to provide ideas for the look and feel of the Web site. He chose one. Skinner was careful to ensure consistency on and offline. "All of our marketing vehicles that we are using have the same look and feel," says David Arant, vice president of marketing.

For example, on the left side menu of skinnernurseries.com, an "S" works its way from top to bottom of the menu. Though that feature originated with its Web site, the company has maintained the stylized "S" through its print marketing as well.

Skinner aims to make its site functional for its customers. The distributor offers customers registered on the Web site the ability to look up their purchase history, or pull up invoices and current statements. "When a customer can access an invoice or statement online, it provides a faster and easier way of communicating with our customers who are increasingly becoming Internet savvy," Van Dyke says. "And it offers our customers access to information after hours when many do their paperwork, bill paying, etc."

The feature helps customers grow more efficient, ultimately making Skinner more efficient and valuable as a supplier. "We are trying to end the exercise of faxing or after the fact helping a customer find their paperwork," Van Dyke says.

The distributor provides informational resources on the site, including links to industry publications, associations and college programs. It also provides a series of how-tos on planting a tree and information on hardiness, tree weights and containers.

Skinner has a formal process for responding to people who register on the Web site. Each person who registers gets an automated email thanking them for registering and providing additional information about the site. Soon after, the potential customer will receive a phone call from a Skinner employee tasked with screening potential leads that come from the Web.

The distributor has an in-house policy that every email, phone call and fax be answered. It's important to take email seriously, says Adam Fein of Pembroke Consulting.

In Facing the Forces of Change: Lead the Way in the Supply Chain, Fein gives one example of a distributor that embraced email by

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Can Customers Find Your Site?

What would customers type into a search engine if they wanted to find a supplier of your products?

"Most of you who do this will be highly depressed," Indian River Consulting Group's Mike Marks says.

If your Web site does pop up (and even if it doesn't), ask yourself these questions:

1. When they get to your site, how easy is it for potential and current customers to "touch a person"?
2. How do you look compared with your competitors?
3. What else did you find and what does it mean?
4. Have you taken actions to link yourself to your community?

employing someone full-time to field emails and ask salespeople to respond to those leads.

Skinner includes a picture of all employees and management on its Web site. Under each mug shot is an email address and name. "A lot of our business is still done over the phone," Van Dyke says. "We thought it was a way to help customers put a face with a name. People buy from people and especially people they like."

Modern Group

Going beyond brochureware can mean something as simple as providing an avenue online where customers - happy or not - can connect with your president or CEO through a real e-mail address.

A construction equipment distributor, Modern Group Inc., Bristol, PA, has done just that.

Modern Group's CEO, David Griffiths, had his name and direct email address posted on the company's Contact Us page. Most of the email messages that make it to his inbox are from unhappy customers, but that doesn't bother him.

Griffiths says he saves accounts weekly by dealing personally with those emailed complaints in a timely manner. "It's the unhappy customers who don't email me that I lose sleep over," he says.

Griffiths, who worked for IBM and MCI before joining the team at Modern Group, outsourced the design of the company's site at www.moderngroup.com. He sees a Web site as a "low-cost way" to touch the customer. "I can't imagine not having a Web site, if, for nothing else, to provide consistent information to prospects and to express Modern Group's capabilities," he says.

Modern Group, 100-percent employee-owned, has 22 locations and about 640 employees. It has done major revisions to its site eight times in the past 10 years, Griffiths estimates; it's important to keep up with needs of customers and changes in technology.

Still, for Griffiths, the technology is only part of the picture. A distributor must strike a balance between the online and in-person contact he makes with his customers. Service through "real people" is still the most important, Griffiths says.

For example, though Modern Group does sell its products online through a third-party provider, it will not sell a forklift online. Due to product liability, the company does not want a customer to buy the equipment unseen.

But the customer can make an inquiry online, and Modern Group will follow up by scheduling an appointment to meet with that customer in person.

The bottom line for Griffiths is that you cannot build a Web site and hope "they" will come.

He says it takes work to build a site that will draw existing and potential customers alike. To make a Web site really work, Griffiths says, distributors should:

1. Make sure the back-end is responsive. Email cannot sit in the inbox for days without a response.
2. Demonstrate to customers how they can use the site.
3. Determine who is responsible for content. Marketing should be the provider of content; the burden should not be placed on the IT staff. Drive your offline message online.
4. Make the Web site part of their logo and official branding.
5. And invest in search-engine-optimization so that the company can be found online.

Robert Fernley of Association Management Firm Fernley & Fernley Dies at 85

Nationally recognized association executive Robert C. Fernley, 85, died May 8. Fernley was Chairman of the Board from 1962 to 1988 of Fernley & Fernley, a fifth-generation association management firm now run by G.A. Taylor Fernley.

The firm was started by T. James Fernley, a hardware wholesaler, in Philadelphia. T. James' son, Thomas A. Fernley Sr., joined his father when, in 1909, a number of other national associations approached them to serve as their organizations' management team. Fernley & Fernley manages several distribution associations, including the Industrial Supply Association and the Gases and Welding Distributors Association. The Association Management Company Institute presented Fernley with its Distinguished Service Award in 2004.

Fernley was active in the Episcopal Church and served as Chairman of the Board of Voyage House, Philadelphia's organization for homeless and runaway children. He graduated from the Wharton School of the University of Pennsylvania in 1943. He served during World War II as a First Lieutenant in the 144th Calvary Reconnaissance Troop.

Fernley was an avid outdoorsman.

Fernley is survived by his wife, Alicemarie Guerin Fernley, five sons, three grandchildren, and two stepchildren.

Tornado Hits Distributor's DC

Industrial Distribution Group North Carolina facility severely damaged

Early in the morning May 9, Industrial Distribution Group's Belmont, NC, distribution center was hit by a tornado. The distributor suffered an estimated $5 million to $7 million in damages, CEO Charles Lingenfelter told MDM.

The office building, a separate facility, was not hit, but the distribution center was severely damaged. Inventory was damaged by water and flying debris. Fortunately, nobody was hurt because the tornado hit in the middle of the night.

Lingenfelter estimates it will take a minimum of four to six months to repair the facility in part due to lead times on required materials.

Until then, the distributor is utilizing a temporary distribution facility about four miles away that local officials helped the distributor find. IDG has had to move 32,000 items to the new facility, where they were inspected to determine whether they were in "new and restockable" condition. Some of the stock has already been replaced.

Many IDG associates worked the entire weekend after the tornado, and they continue to work 12-hour days to restore the distribution center to normal operations.

"I could not be more proud of how our team has responded and how their families supported us," Lingenfelter says. "Our objective since the tornado struck was to make this significant event transparent to our customers."

The distributor had a Disaster Recovery Plan in place. IDG had three generators on site that ran on natural gas to keep its computers and phone system powered and cooled to ensure business continuity. Lingenfelter says the generators "were an investment that was well worth it."

The morning of the tornado, telephones were forwarded to the company's Ensco Supply, Charlotte, NC, office, where Belmont customer service associates were instructed to report to work. After total power was restored later in the morning, the customer service associates moved back to the Belmont office. Most orders from Southeastern customers were processed through the York, PA, Nashville, TN, and Elkhart, IN, distribution centers. IDG's temporary distribution center is currently at 50 percent of capacity and will be at 100 percent capacity by May 27.

"I'm very proud of what we achieved," Lingenfelter says. "No phone call was missed." He says the distributor has received strong support from its suppliers and the local community. "The most important thing that got us through this was support from our dedicated associates, our suppliers, our community leadership and the operational infrastructure within the community."

IDG is an industrial MROP distributor and integrator supplying cutting tools, hand and power tools, abrasives, material handling equipment, coolants, lubricants, and safety products.

In Case of Emergency: Key Points in Creating a Business Continuity Plan

Not all disasters are alike, and some may be more difficult to bounce back from. Still, it is important to consider what your business would do in the case of a catastrophic event, such as a tornado or flooding. Consider these tips from the June 10, 2006, MDM Archives.

1. To protect and access vital records, label them, back up computer systems, make copies of records, store tapes and disks in insulated containers, store data off-site where it will not be damaged by an event hitting your facility, and arrange for back-up power.

2. Incorporate key suppliers into your disaster plan to ensure business continuity. Discuss scenarios to establish how your top three suppliers can support any capabilities you might lose in an emergency.

3. Take down the email addresses, phone numbers (including spouses' or other family members'), and other contact information for all employees and suppliers. Create a reference manual for recovery. In addition to keeping that information on- and off-site, put this information in your cell phone or other mobile device.

4. Save a sample of each type of form you use on a daily basis, including invoices and purchase orders. Store out of the office.

5. Create a disaster recovery coordinator role. You or someone you designate has to think through the scenarios of worst case and create plans for who does what and when. The plans may not be perfect, but it is always easier to adjust than to start thinking through the right decisions under pressure.

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Industrial & Construction Markets Update

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First-Quarter Machine Tool Consumption Up 36.7%

March U.S. manufacturing technology consumption totaled $544.62 million, according to the American Machine Tool Distributors' Association, and the Association For Manufacturing Technology.

This total, as reported by companies participating in the USMTC program, was up 84.4 percent from February, and up 36.1 percent from the total of $400.19 million reported for March 2007.

With a year-to-date total of $1,183.75 million, 2008 is up 16.4 percent compared with 2007.

These numbers and all data in this report are based on the totals of actual data reported by companies participating in the USMTC program.

"The March consumption numbers, as well as the first quarter as a whole, clearly demonstrate that the investment incentive stimulus package along with the weak dollar are helping metalworking manufacturing to counteract the weaknesses in the other sectors of the economy," said Peter Borden, AMTDA president.

"We're pleased that the surcharges on fuel and other items have not affected decision makers' appetites for capital goods. It's noteworthy that all areas of the country had substantial gains; and this makes us cautiously optimistic for the balance of the year."

The U.S. Manufacturing Technology Consumption (USMTC) report, jointly compiled by the two trade associations representing the production and distribution of manufacturing technology, provides regional and national U.S. consumption data of domestic and imported machine tools and related equipment.

Analysis of manufacturing technology consumption provides a reliable leading economic indicator as manufacturing industries invest in capital

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Wolseley plc, distributor of plumbing and heating products to professional contractors and a supplier of building materials, reported overall that sales for the first nine months ended April 30, 2008, were up 2 percent and profit fell 23 percent. As a result of what the distributor called tough market conditions, Wolseley has made further cost reductions in North America since April 30, 2008. The distributor has closed 75 branches and reduced headcount by 200 at **Ferguson** and closed or consolidated an additional 15 locations in Canada, with a reduced headcount of 50 people.

Womack Machine Supply Company has acquired California-based **Applied International Motion LLC**. The addition of Applied International Motion allows Womack Machine Supply to sell and service Factory Automation products and Motion Control systems in California and Nevada.

HD Supply Waterworks, an HD Supply business, has opened a 15,000-square-foot facility in Brunswick, GA. The new location features a warehouse, office space and tool showroom. The company has also consolidated two existing local branches into its Savannah-area facility in Pooler, GA.

Building Materials Holding Corp., San Francisco, CA, a provider of building materials and construction services to professional residential builders and contractors, announced that is wholly-owned subsidiary **SelectBuild Arizona** will discontinue its residential framing and concrete operations in Tucson, AZ, on July 18.

Sonepar USA, Philadelphia PA, a subsidiary of Sonepar, has acquired **ESSCO Wholesale Electric** in Arizona. ESSCO Wholesale Electric, distributor in Arizona and California, is a full-line commercial and residential contractor supply house. The company is a 14-branch operation.

The Manitowoc Company, Inc., Manitowoc, WI, has increased its offer for commercial foodservice equipment maker **Enodis** to $2.4 billion, including the assumption of Enodis' net debt of $245 million. In the first week of May, **Illinois Tools Works Inc.** made an offer of $2.1 billion plus the assumption of debt.

Applied Industrial Technologies, Cleveland, OH, has agreed to acquire **Suministros Industriales Enol, S.A. de C.V.** and its group of companies. Enol is one of Mexico's largest distributors of power transmission products including bearings, hydraulic hose, electric motors, conveyor products, and lubricants, and had sales of US$25 million in 2007.

Metals distributor **Samuel, Son & Co., Ltd.**, Mississauga, Ontario, has agreed to buy **Namasco Limited**, the Canadian subsidiary of **Klockner & Co. AG** of Duisburg, Germany. Samuel, Son & Co. operates 45 facilities throughout North America and has locations in Australia, The United Kingdom and China.

3M, St. Paul, MN, has agreed to buy **Quest Technologies Inc.**, a manufacturer of environmental monitoring equipment, including noise, heat stress

continued on next page

and vibration monitors. The move boosts 3M's offering in safety products.

3M has agreed to sell **HighJump Software**, a 3M company, to **Battery Ventures**, a technology venture capital and private equity firm.

Parker Hannifin Corp., Cleveland, OH, supplier in motion and control technologies, has acquired the remaining stake in its joint venture, **Parker Seal de Mexico**. Parker held a 49 percent stake in the $8.3 million revenue company prior to acquiring the remaining interest from multiple joint venture partners. The acquired operation will become part of Parker's Seal Group, and its results will be reported within the Industrial North America business segment.

Industrial production declined 0.7 percent in April after having risen 0.2 percent in March. Manufacturing output fell 0.8 percent in April. As was the case in March, factory output in April was held down by a large drop in the index for motor vehicles and parts; strikes and strike-related parts shortages resulted in suspended production at many facilities.

All categories of **power transmission/motion control products** posted a decline in sales for the first time in 2008, according to the March 2008 month-end trend data from the Power Transmission Distributors Association. U.S. distributors' sales of PT/MC products dropped 7.6 percent in March 2008 compared to February 2008.

Canadian manufacturers gave back some of their recent gains in March as factory sales retreated 1.6 percent to $49.0 billion. The scope of March's slowdown was extensive as 18 of the 21 manufacturing industries, representing 76 percent of total sales, posted declines. A sharp downturn in motor vehicle manufacturing was the chief contributor.

Building Materials Holding Corp., San Francisco, CA, provider of construction services and building materials to professional residential builders and contractors, reported sales for the first quarter 2008 decreased 37 percent to $355 million from $559 million in the same quarter a year ago. Net loss for the first quarter 2008 increased to $33.9 million.

Building Materials Holding Corp. announced its subsidiary **BMC West** will close its millwork and building materials distribution facilities in Merced and Bakersfield, CA. Both markets will be served from nearby operations in Modesto and Fresno.

Roofing supplies distributor **Beacon Roofing Supply, Inc.**, Peabody, MA, reported sales in its first half were up 5.3 percent to $702.6 million from the same period a year ago. Growth was due to acquisitions. Sales in existing markets fell 9.8 percent.

DXP Enterprises, Inc. reported sales increased 101.5 percent to $168.5 million in the first quarter 2008, due mostly to sales by four businesses acquired in 2007 and 2008, including **Precision Industries**. Profit was $5.4 million. Excluding sales from acquired businesses, sales for the first quarter were up 13.5 percent.

Park-Ohio Holdings Corp., Cleveland, OH, reported sales of $267.1 million for the first quarter 2008, unchanged from the first quarter 2007. Park-Ohio reported profit of $3.5 million, down slightly from the year-ago period.

Graybar, St. Louis, MO, distributor of electrical and communications products and related supply chain management and logistics services, reported sales grew 4.8 percent in the first quarter 2008 to $1.28 billion from the same period a year ago. Profit was $18.9 million, a 58.7 percent increase. The increase was due to modest growth in electrical market sales coupled with a solid growth in the data communications market.

Quebec-based **RONA**, distributor and retailer of hardware, renovation and gardening products, reported a 3.8 percent increase in sales to $911.5 million in the first quarter 2008. Same-store sales declined by 5.2 percent in the first quarter of 2008. Profit was $1 million, compared with $9 million in the year-ago period.

Illinois Tool Works Inc., Glenview, IL, reported operating revenue increased 11.5 percent for the quarter ended April 30, 2008. Growth in revenues was primarily due to contributions from translation and acquisitions.

Rexel reported 3.1 percent organic growth (on a constant and same-day basis) for the first quarter 2008, with profit up 27.2 percent from the year-ago period. Sales in the first quarter were €2.5 billion, compared with €2.4 billion a year ago. Sales were up 3.7 percent in Europe, led by Northern Europe and the United Kingdom. North America had growth of 1.2 percent. In

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Tightened Credit Markets, Economy Play Role in Bidding War for IDG

The tightened credit markets and the economic downturn were center stage in the bidding for Industrial Distribution Group Inc., Atlanta, GA, according to a proxy statement recently filed by IDG with the SEC about its plan to be acquired by Luther King Capital Management.

In fact, Platinum Equity, which was originally the winning bidder for the industrial distributor, had first bid $12 a share in December 2007 but reduced its offer to $10 a share in mid-January. The private equity firm cited risk in improving IDG's MROP and integrated supply business due to an overall decline in the industrial economy.

This prompted investment banking firm Robert W. Baird & Co. to go back to five bidders for new written proposals. Among the five bidders was WESCO, who showed an interest in IDG but whose bid was contingent on finding $30 million or more of "sustainable SG&A savings and sales synergies" after acquiring the distributor.

This time around, the bidders were offering "significantly reduced purchase prices." According to the proxy statement, the lower offers were likely due to a deteriorating lending environment and general economic conditions, the general decline in stock prices of IDG's competitors, and the overall decline in broader market indices.

Platinum eventually raised its bid to $10.30 in mid-February, after which IDG's board voted to recommend its offer.

But the process did not end there. On March 31, WESCO was the first to come back to IDG and offer an increased bid of $11 a share. Under the Platinum merger agreement, IDG could consider "bona fide and credible acquisition proposal that could reasonably lead to a superior proposal."

On April 4, Luther King Capital Management, which had become IDG's largest shareholder by a series of recent purchases of common stock (at 14.9 percent), offered $11.70 per share.

LKCM and WESCO's proposals were announced in a press release by IDG on April 7. Both companies started due diligence.

On April 15, WESCO increased its bid to $11.75 a share and provided documentation from a third-party lender to support its ability to pay. As reported, Platinum then increased its bid to $11.80, and on April 22, WESCO bowed out of the bidding war.

The same day LKCM submitted a definitive offer to acquire IDG for $12.10 a share along with an equity commitment letter.

Three days later, Platinum said it would not match LKCM's offer. On April 28, IDG paid the $3 million merger agreement termination fee to Platinum Equity.

IDG outlined its reasons for selling in the proxy statement:

Illiquidity of Common Stock. IDG also considered what it called the "historically consistent 'thin' trading profile" of its common stock, which resulted in widely fluctuating trading prices due to a small number of shares and the unavailability of the public trading market as a source of liquidity for stockholders.

Costs of Remaining Public. The "significant costs" of continuing as a public company and the implications of those on future profitability. According to the statement, the merger will allow IDG to save about $2 million annually in administrative, accounting and legal expenses associated with requirements by the SEC, including Sarbanes-Oxley.

Uncertainties of General Economic Conditions. IDG says it considered the potential risks and implications of the decline in the economy and prospects in the industry exacerbated by the increasingly negative lending environment.

Premium on Trading Price. The LKCM represents a premium of 32.2 percent to IDG's common stock closing trading price of $9.15 on July 27, 2007, the last trading day before announcing IDG was considering strategic alternatives. The Board of Directors considered this premium in light of a general decline in stock prices of its publicly traded competitors.

According to the statement, between July 27, 2007, and Feb. 15, 2008, there was a 20.6 percent decline in the stock prices of the group of IDG's publicly held competitors being used as an "industrial distribution index" for the strategic review process. There was also a 7.5 percent decline in the Standard & Poor's 500 Index during that time.

IDG reported sales for 2007 were $537.5 million, compared with $547.9 million in 2006, down 1.9 percent. Profit was $4.1 million, compared with $6.8 million last year.

IDG Board Chairman Richard Seigel said in August 2007, that "IDG needs to consistently grow revenues at a higher level while also seeking a strategic way to reduce its cost profile, both of which have been a source of concern."

Machine Tool Consumption

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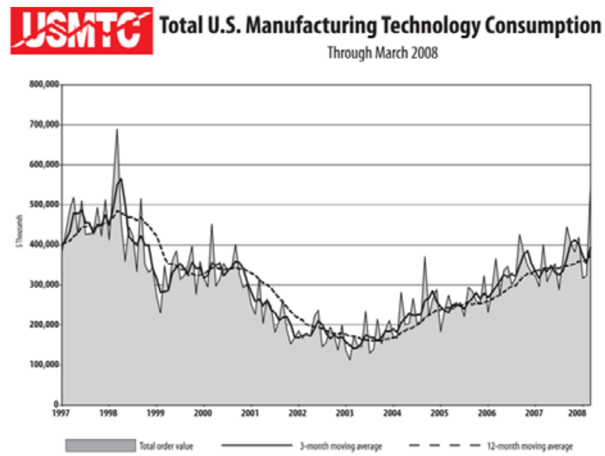

metalworking equipment to increase capacity and improve productivity.

U.S. manufacturing technology consumption is also reported on a regional basis for five geographic breakdowns of the United States.

Northeast Region

Northeast Region manufacturing technology consumption in March rose to $71.34 million, 57.3% higher than February's $45.37 million, and 19.1% higher than the March 2007 total. At $175.13 million year-to-date, 2008 is up 8.8% when compared with 2007 at the same time.

Southern Region

March manufacturing technology consumption in the Southern Region totaled $67.44 million, up 67.8% when compared with February's $40.19 million, and 40.5% higher than the March total a year ago. Compared with 2007 at the same time, the year-to-date total of $166.90 million is up 37.7%.

Midwestern Region

With a March total of $223.29 million, Midwestern Region manufacturing technology consumption was up 201.9% from February's $73.96 million, and up 85.5% when compared with March 2007. The $431.25 million year-to-date total is 53.3% higher than the 2007 total at the same time.

Central Region

Central Region manufacturing technology consumption rose to $116.83 million in March, 21.9% higher than February's $95.88 million, and 8.5% higher than the tally in March 2007. The year-to-date total of $267.57 million is 6.9% less than the comparable figure in 2007.

Western Region

At $65.71 million, March manufacturing technology consumption in the Western Region was up 64.3% when compared with February's $39.99 million, and 2.3% higher than the March 2007 total. Compared with 2007 at the same time, the year-to-date total of $142.91 million is down 14.0%.

MDM News Digest

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Asia-Pacific, growth was 8.2 percent.

Atlanta, GA-based **Industrial Distribution Group, Inc.** reported first-quarter revenues of $127.3 million, compared with $135.1 million in the year-ago period, a decline of 5.7 percent. Profit was $0.9 million, compared with $1.5 million last year.

Werner Co., Greenville, PA, has acquired **Green Bull Inc.** from **Green Bull Loan Acquisition, LLC**. The assets purchased include the Green Bull brand and certain intellectual property, manufacturing operations and equipment in Louisville, KY, finished goods inventory, and certain warehouse and facility leases.

The Manufacturers Alliance/MAPI Quarterly Economic Forecast predicts that **inflation-adjusted GDP growth** will slow to 1.3 percent in 2008 before improving to 1.9 percent in 2009. The 2009 forecast is down from 2.5 percent projected in the February outlook.

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